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MIDDLE EAST: The calm on the Egyptian front was broken yesterday by two hours of sporadic artillery fire. Syrian and Israeli artillery exchanged fire over the weekend. The Syrian front had been relatively quiet during the past week.

Israeli troops withdrawing from the west bank are said to be destroying Egyptian missile sites, despite an order by Chief of Staff Elazar to leave all military and civilian installations intact.

Jerusalem has announced that, while its forces are pulling back from the west bank, other Israeli forces in the Sinai, south of the Egyptian Third Army, will begin to withdraw now. Israeli troops in the latter area had been scheduled to withdraw at a later stage. They are being pulled back now because the Egyptians refuse to thin out the Third Army until the Israeli forces facing it begin to withdraw.

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An Egyptian military spokesman has announced that the Cairo-Suez road will be reopened to civilian traffic on Tuesday. Initially, only government employees, journalists, and other sanctioned groups will be allowed to use the road. Individuals who have valid residence cards, issued by Suez district, will be allowed to use the road beginning February 5.

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CAMBODIA: Recent shellings by the Khmer Communists have increased war-weariness and apprehension in Phnom Penh, but a general exodus from the city does not appear in the offing. Most of the estimated 10,000 families that streamed from the hard-hit southwestern quarter into the heart of the capital on Saturday have now returned to their homes. Government authorities, meanwhile, are instituting tighter population control measures to try to prevent a recurrence of panic.

Communist gunners south of Phnom Penh in the vicinity of the Prek Thnaot River are still within range of the capital, and their shelling of the southwestern sector of the city resumed early this morning.

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There was little significant ground fighting in the Phnom Penh region over the weekend. Government forces made only limited progress in attempting to drive the Communists away from Phnom Penh's southwestern defense line. Cambodian Army operations in this sector have been hampered by a lack of cooperation and coordination among local commanders.

On the political front, Prince Sihanouk has concluded his brief visit to North Vietnam. Before leaving Hanoi on January 26, Sihanouk again publicly ruled out any negotiations with the Lon Nol government and the formation of a coalition government. He also reiterated that diplomatic relations could be established between his "government" and the US as soon as Washington ceases to "interfere" in Cambodian affairs and terminates all forms of aid to Phnom Penh.

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ICELAND-USSR: Soviet officials in Iceland, in an effort to intimidate those who would retain the US-manned Iceland Defense Force, are threatening to cut off vital Soviet exports of oil.

Reliable sources of the US Embassy report that Soviet officials have made veiled threats to the local importer and to the leaders of fishing cooperatives. The Soviets are also dragging their feet on negotiating new contracts to buy Icelandic fish and woolens, important to the Icelandic economy.

Although some officials of the fishing cooperatives are concerned, Soviet pressure on the independent-minded Icelanders could backfire. The US Embassy is trying to convince Icelandic officials that the Soviet threat runs counter to Soviet objectives elsewhere and is probably a bluff.

The Soviet campaign evidently began only after supporters of the Defense Force unveiled a nationwide petition drive. The Soviets either do not recognize the possibility that their tactics might backfire, or consider the petition drive sufficiently serious to warrant taking the risks involved in trying to head it off.

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KOREA: Pyongyang has denounced Seoul's proposal of January 18 for a nonaggression pact, claiming that it offers no practical steps toward achieving unification and would, in fact, perpetuate the division of the nation. In a toughly worded editorial in the party daily broadcast on January 26, the North accused Seoul of making the offer simply to justify its rejection of Pyongyang's own long-standing formula for settling the Korean problem. Pyongyang maintained that only through adoption of the North's concrete proposals--which include withdrawal of all US forces, arms limitation, and a peace treaty--can Korea make genuine progress toward national unification.

Pyongyang's negative statement, however, stopped short of shutting the door to further discussion of Seoul's offer. Shortly after the editorial was broadcast, Pyongyang proposed that the meeting of vice chairmen of the North-South Coordinating Committee be convened on January 30. Pyongyang had postponed the meeting last week after Seoul had offered the nonaggression pact. The North will probably use the meeting for further denunciations of Seoul's concepts, but it will also be probing for indications that the proposal signals a softening of South Korean opposition to US troop withdrawals, termination of the UN Command, and a formal peace treaty.

Pyongyang's strong reaction on the issue reflects its determination to prevent Seoul from gaining the initiative in their ongoing dialogue. Pyongyang also wants to thwart any attempt by Seoul to use progress in the North-South talks to divert domestic attention from its pressing political problems. The Communist editorial stressed that, even while offering a nonaggression pact, Seoul was initiating provocations against the North and trumpeting the threat of "southward aggression" to justify its repressive policies at home.

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ARGENTINA: The resignation of eight Peronist congressmen in protest against new tough antiterrorist legislation could be another blow to President Peron's splintered movement.

The controversial law enacted by Congress on Friday gives Peron broad powers to combat subversion, but left-wing Peronists and opposition political parties charge that it will enable the government to use repressive measures indiscriminately to stifle its opponents. The resigning deputies--most of them spokesmen for left-leaning Peronist youth--had met with Peron to express their opposition to the measure, but were curtly informed that they could leave the party if they did not support Peron's position. Peron followed up on his hard line by expelling the recalcitrant Peronists from the official party.

This first open breach in Peronist ranks brought a rash of violent incidents over the weekend that gave every indication of being the handiwork of opposing Peronist factions. Although it does not appear that the sagging enthusiasm of leftists for Peron will result in extensive bolting from his party, there is danger that stepped-up attacks on the left by right-wing extremists and security forces might drive Peronist guerrilla organizations into the camp of Marxist terrorists who are already seeking to undermine the government. Some of these groups co-operated in opposing the military government while Peron was in exile.

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GRENADA: A complete breakdown in public order is making it increasingly unlikely that Premier Eric Gairy will be able to achieve independence for his island state on February 7 as scheduled.

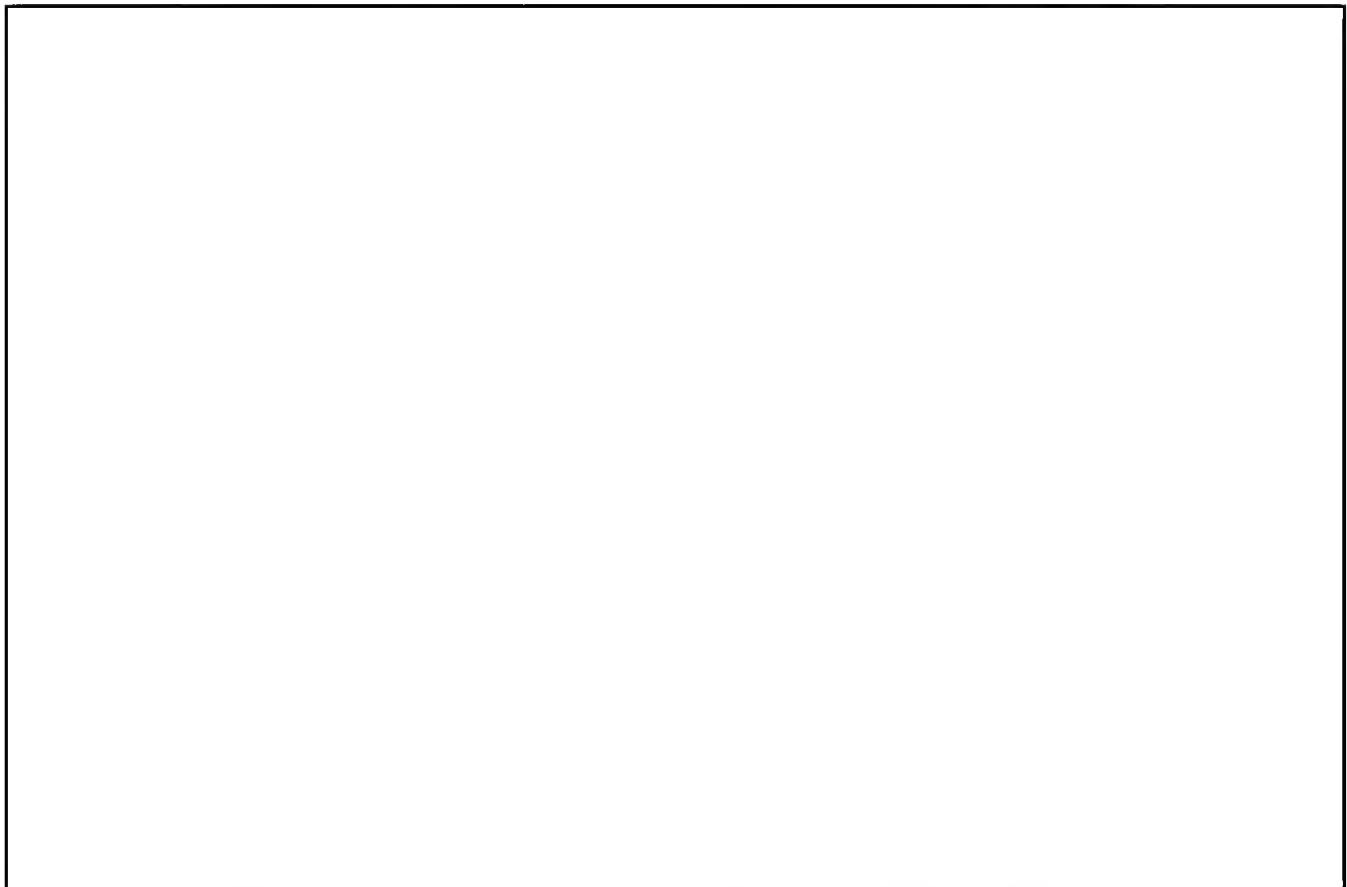
Rioting over the past week has resulted in three deaths, and shortages of food, caused by union boycotts of Grenada-bound cargo from neighboring islands, has precipitated widespread looting. A shutdown of telecommunications has isolated the island. Persons leaving Grenada describe the capital city of St. Georges and two principal towns as in shambles.

In an effort to avoid further conflict, the Caribbean Council of Churches has offered to mediate between the Premier and his opponents, taking as a starting point demands by the moderate opposition that Gairy effectively disarm and disband his secret police and punish those responsible for police brutality. Gairy, who says he has already taken these steps, has accepted the Council's offer. The opposition has not replied, but since Gairy has, in fact, done nothing to curb his "police aides," the mediation offer may prove futile. If Gairy does not begin to show some degree of good faith, his moderate opponents, who fear his government will become even more authoritarian after independence, will have little choice but to join with the radicals in demanding his resignation.

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CYPRUS: The leadership of George Grivas' National Organization for the Cyprus Struggle will pass to former Cyprus Army Major Stavros Stavrou, his second-in-command. The announcement was made by officials of the Grivas organization following Grivas' death from a heart attack in southern Cyprus yesterday. Stavrou was arrested several months ago in a government crackdown that has left the organization in poor shape to survive Grivas' death.

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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